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USSR

The disastrous grain harvest, coupled with chronic shortcomings in industrial management and construction, has created the most serious economic problems for the USSR in more than a decade. After slowing markedly in 1974, growth in gross national product slumped to less than 2 percent this year.

The outlook for 1976 is bearish. At the heart of the 1975-76 slowdown is the severe drought that prevailed during most of this year in the key grain regions.

Although lacking in detail, announcements from this month's meeting of the Supreme Soviet reflected some of the major trends in the troubled economy:

- Overall farm output is down more than 10 percent in 1975, the drop highlighted by the depressed grain harvest of about 137 million tons--80 million tons short of target; other crops generally were mediocre.

- The failure of meat output to rise in the fourth quarter, despite a sharp increase in the number of animals slaughtered, is a harbinger of difficulties to come.

- Industry turned in a respectable performance--up 6.5 percent--with machinery output leading the way.

- Military spending continued to rise in 1975 buoyed by procurement of hardware for strategic weapons systems.

Looking ahead to next year, the Soviets have projected an implied planned increase in gross national product of 5.5 percent. If this goal is to be met, above-average weather conditions in agriculture will have to prevail.

If the rebound of 11 percent slated for farm output next year is to be achieved, an exceptionally sharp rise in crop production will be needed to more than offset depressed livestock output. The shortfall in feedstuffs from the 1975 crop will mean that distress slaughtering of livestock will have to continue into the first half of 1976 and that lower herd inventories, coupled with decreased slaughter weights, will bring about a reduction of 15 to 20 percent in the output of livestock products.

The Soviets are planning a 4.5-percent rise in industrial output for 1976, the lowest plan figure since World War II. This moderate goal reflects the following unfavorable factors:

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--shortages of agricultural raw materials for the food processing and soft goods industries;

--persistent lags in the completion of new plans and the delivery of new equipment—a condition that will hold back production of both light and heavy industries;

--a slowing of the growth of the industrial labor force. Planners are reluctant to draw further from the large pool of agricultural labor for fear of aggravating chronic difficulties in the farm sector.

The investment data indicate a continued concern about old problems rather than a basic restructuring of priorities. Growth in total investment in 1976 is to be reduced to 4 percent, with emphasis on a reduction of the vast amount of capital tied up in uncompleted investment projects; an increase in the share of producer durables going for replacement of obsolete equipment; and maintenance of the high priority of investment in agriculture and its supporting industries (40 billion rubles, or more than one third of all investment).

The serious shortfall in farm output and the scheduled slowdown in industrial growth will put consumer welfare programs under increasing strain. Increases in consumer goods and services will be the lowest in the Brezhnev era. Similarly, the annual boost in wages and salaries will be held to 3 percent to reflect poor prospects for supplies of consumer goods. Even with consumer incomes rising more slowly, demand for meat will continue to grow. Although supplemented by imports, domestic meat supplies will fall considerably short of the 1975 level. Restricted food supplies, taken together with the regime's refusal to raise retail prices, could result in severe shortages.

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EC-CHINA

Peking has accepted the EC offer to begin negotiations on a trade agreement along the lines the EC suggested a year ago for pacts with Communist countries. A Chinese delegation will come to Brussels for the negotiations, perhaps in early February.

In contrast to the East European countries, Peking has acknowledged the Commission's role as negotiator for all EC member states jointly under the common commercial policy. The model agreement proposed by the Commission to all state-trading countries suggests nonpreferential trade accords of five or ten years' duration. It would include offers to enlarge or eliminate quotas. The model also holds open the possibility of wider economic cooperation.

In addition, the Chinese mission in Brussels had already showed interest this fall in the trade preferences available to all developing countries under the Community's scheme of generalized preferences. Commission officials believe that a Chinese application for generalized preferences would probably be granted by the EC Council.

The EC ranks third this year—after Japan and Hong Kong—among Peking's trade partners, and China would like to reduce its trade deficit with the Community. In 1974 the EC exported goods valued at \$975 million to China, while its imports from China were valued at \$828 million.

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LEBANON

Prime Minister Karami's statement yesterday that he had heard of Israeli plans to invade Lebanon on the pretext of saving Lebanon's small Jewish community has caused a considerable stir in Beirut and other Arab capitals.

The Prime Minister claimed he heard a broadcast over Israeli radio early yesterday morning announcing Tel Aviv's intentions, but Israel quickly denied any such broadcast. Karami's allegations nevertheless prompted standard warnings from Cairo against Israeli intervention in Lebanon.

Lebanese leaders frequently seek for their own political reasons to portray Tel Aviv as posing a major threat to Lebanese unity and as being responsible for Lebanon's internal problems. They may, however, be genuinely worried about possible Israeli action in the wake of Tel Aviv's recent air attacks on Palestinian camps in Lebanon.

The fighting in Beirut has dropped off considerably as the latest cease-fire is slowly being implemented. The presence of security forces in the hotel district has helped quiet the downtown area, although Muslim leftists and Christian Phalangists could easily retake their respective strongholds. Scattered fighting throughout the suburbs continues, but in general the situation has improved enough to allow Lebanese leaders to focus on political solutions to the dispute.

The severity of the recent flare-up apparently has prompted a more conciliatory attitude among principal government leaders. According to US officials in Beirut, Prime Minister Karami and President Franjiyah have been working together more constructively. Interior Minister Shamun, the strongest Christian in the cabinet, is reported to have reached at least a temporary reconciliation with Karami over the weekend. Shamun was scheduled to meet with Palestinian leader Yasir Arafat yesterday.

This cooperation will help Karami in his efforts to expand the cabinet, which has once again become his top priority. Leftist leader Jumblatt—whose representation in a new government is considered essential—returned from his trip to Damascus early this week

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Syrian efforts over the past two weeks to mediate among Muslim and Christian leaders are generally being credited for having smoothed the way for the latest cease-fire and the renewed political talks. Prior to the outbreak of fighting last week, Phalanges Party leader Jumayyil met with President Asad and had at that time expressed willingness to cooperate.

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ISRAEL

Recent Israeli press releases painting a dismal picture for Israel's economy next year probably are geared for the kickoff of the 1976 United Jewish Appeal campaign and US Congressional hearings on the Israeli aid package. Israel forecasts a 6-percent increase in imports, against a 9-percent rise in exports resulting in about a \$3.7-billion trade deficit. What the press releases do not say is that, with expected transfers and \$2.3 billion in US aid, this would mean a 1976 balance-of-payments surplus of \$500 million; our earlier estimate was for a \$200-million surplus.

With respect to the domestic economy, Tel Aviv also has released an unrealistic set of projections:

- a \$12-billion budget, 40 percent above the budget for the fiscal year;
- a 25-percent rise in industrial output;
- an incredible 62-percent hike in unemployment, to a rate of 5.2 percent.

The Israelis claim that the new budget in real terms will be 5 percent below the fiscal 1976 level, implying a highly unlikely return to the 40-percent annual inflation rate of 1974. The price outlook for 1976 is closer to the 20- to 25-percent rate expected this year.

With only a small increase expected in the labor force, substantial new pockets of unemployment seem out of the question. A similar Israeli unemployment forecast last year failed to materialize.

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ANGOLA

The National Union for the Total Independence of Angola, assisted by forces of the National Front for the Liberation of Angola, captured Cela, in central Angola. An official National Union communique issued Monday stated that the force is now moving toward Quibala, about 180 miles southeast of Luanda.

In eastern Angola, the National Union has consolidated its hold on Luso, recaptured from the Popular Movement last week.

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North of Luanda, there have been no recent significant changes in the military situation. The drive begun by the Popular Movement two weeks ago toward the headquarters of the Zairian-backed National Front apparently remains stalled some 50 miles away, mainly because several river bridges were destroyed by retreating National Front forces.

At a press conference in Luanda yesterday, the Popular Movement exhibited four South African soldiers captured during the fighting around Cela. Publicity about South African participation in the National Union - National Front operations is seriously damaging the nationalist credentials of the two groups; it has already prompted Nigeria's and Tanzania's recognition of the Luanda regime and is clearly causing other African governments that have held off to waver. The Popular Movement, and its backers, can be expected to focus as much attention as possible on South Africa's involvement.

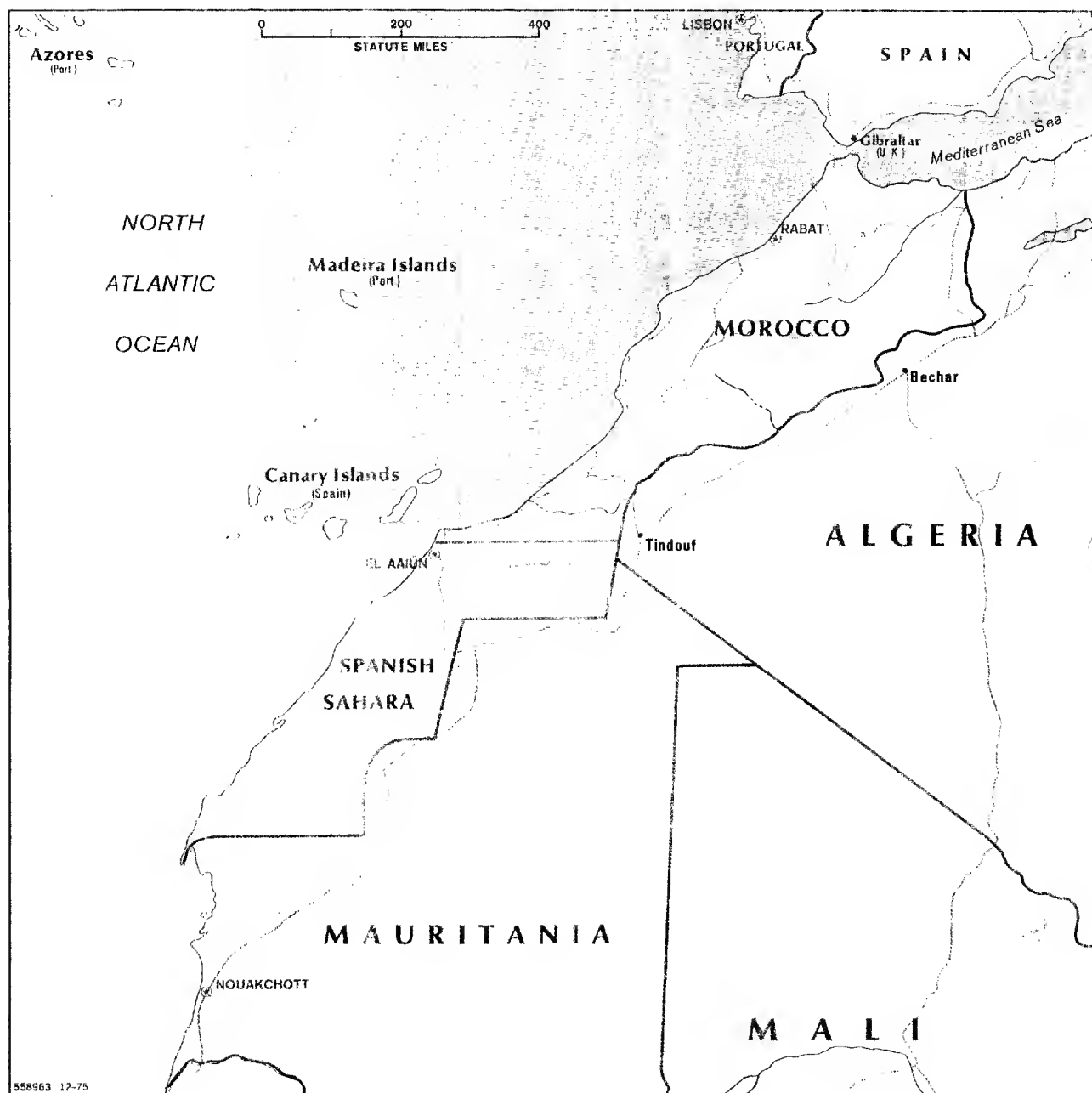
Meanwhile, the Organization of African Unity's timetable for its emergency summit on Angola is now uncertain. As originally planned by OAU officials, the summit was to have been preceded by a preliminary planning session of foreign ministers in Addis Ababa from December 19 to 21.

OAU member states have now agreed, largely at the behest of the states that support the Popular Movement's regime, to hold the two meetings in succession but have not yet agreed on timing. Unless they resolve the issue soon, no meetings are likely to be held until after the first of the year.

On Monday, Sudan became the 14th African country and 30th worldwide to recognize the Popular Movement's regime.

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ALGERIA

Algeria is continuing to take measures to improve its military posture vis-a-vis Morocco.

These actions, for now at least, probably are intended to exert psychological pressure on Rabat and to strengthen Algeria's defensive capabilities as it increases aid to the pro-independence Polisario guerrillas opposing Morocco's move into Spanish Sahara. At the same time, however, the military measures enhance Algiers' ability to take more direct military action.

Algeria has been making a concerted effort to build its military inventory since mid-October when King Hassan announced plans for his mass march into Spanish Sahara. In early November, Algiers reportedly signed a military aid agreement with Moscow

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The Algerians have provided arms, training, and possibly some volunteers to the Front, and the main Polisario base of operations is thought to be in the Tindouf area of southwestern Algeria. Algiers is undoubtedly concerned over how Rabat will react to this support and wants to be ready for any contingency.

The Boumediene government opposes a Moroccan-Mauritanian take-over of the territory and would like to see the Moroccans bogged down fighting a long and costly insurgency. Economic and social development, not the Sahara, is the government's number-one priority, however, and Algiers is not likely to favor action against Morocco that would require an expensive outlay of Algerian resources.

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Inasmuch as Algiers has maintained that it has no territorial claim on the Sahara, it would be hard pressed to justify any direct military action against Morocco. Moreover, the Algerians believe that time works in favor of liberation struggles and probably expect the Polisario Front, following the Algerian example, to bear the brunt of its own struggle for independence.

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SPAIN

The statement of principles that the new government issued on Monday emphasizes economic and social welfare and orderly political reforms. The statement is forward looking, but its broad generalities and lack of any timetable will disappoint the left, which will continue to try to organize strikes and protest demonstrations to bring pressure on the government.

The statement, issued following a cabinet meeting presided over by King Juan Carlos, declared that the government's commitment to act implies constant improvement of the institutional system. Continuing the King's policy of taking every opportunity to solidify his military support, the government's statement led off with praise for the armed forces as a pillar of constitutional order and a promise to strengthen the services.

Turning next to economic and social goals, the government said it would work to assure a job for all and pledged a transformation of economic, social, and cultural structures to promote social justice. The statement said these policies would be pursued within the framework of a market economy and noted that "austerity and work are required of all."

In promising political reforms, the statement gave special priority to expansion of civil liberties and rights—particularly the right of association. While noting that it would be premature to present a detailed program, the government seemed to point to a reform of the legislature, to a widening of suffrage, to the development of political parties, and to the abrogation of anti-terrorist laws.

The statement cautioned that reforms presuppose popular acceptance of a process of evolution. This is a clear warning against demonstrations and strikes which leftists have already started. The government also promised to strengthen national unity by institutional recognition of regional and local autonomy. This is an effort to respond to Basque and Catalan grievances.

In foreign affairs, the government promised cooperation—"without acceptance of discrimination"—with other countries in defense of Spain's national interests, which are especially tied to the Atlantic and Western world. This was a restatement of Spain's desire to join NATO, and a rejection of Madrid's exclusion because of its form of government.

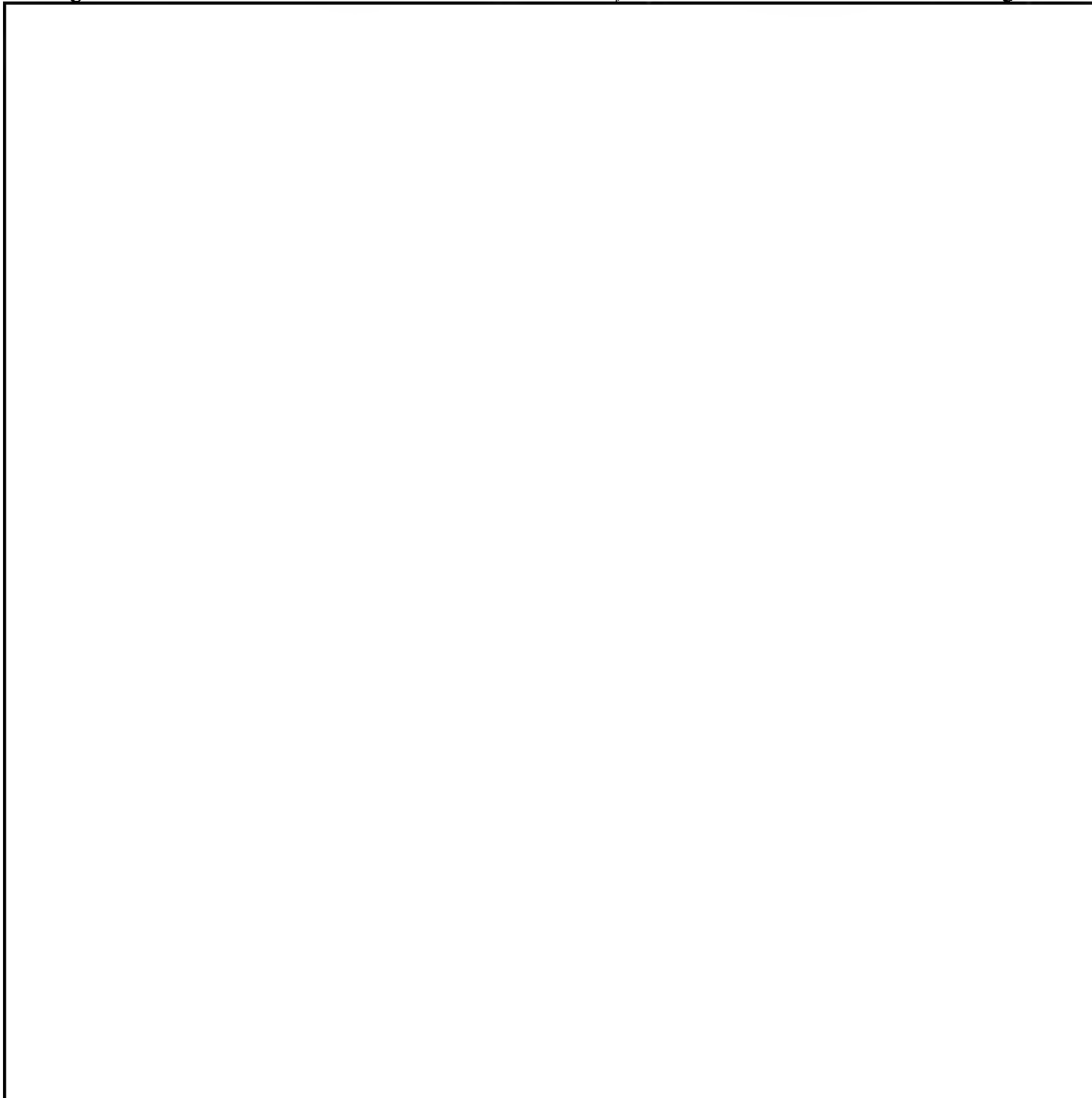
Two small actions this week tend to add credibility to the government's intentions to open up the political system. It returned Socialist leader Felipe

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Gonzalez' passport, and Deputy Prime Minister Fraga reportedly had lunch with Professor Tierno Galvan, leader of the illegal Popular Socialist Party and a member of the Communist-dominated Democratic Junta.

Meanwhile, discontent continues over the limited pardon issued by King Juan Carlos. According to press reports, political prisoners in Madrid and Segovia went on a hunger strike Monday to demand complete amnesty for opponents of the Franco regime who were not released. At the same time, some 5,000 miners in Asturias staged a strike to demand a broad amnesty and liberalization of the regime.



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SOUTH KOREA - JAPAN

Seoul is finally moving to resolve the case of former opposition leader and presidential candidate Kim Tae-chung, apparently in a manner that will not disrupt relations with Japan.

Kidnaped from Japan in 1973 by the South Korean CIA, Kim was sentenced last Friday to one year in prison for alleged campaign violations in the 1967 and 1971 elections. As yet, however, Kim has not been taken into custody, and his lawyers have begun an appeal.

The Kim case was a major irritant in relations between Tokyo and Seoul until earlier this year, when Seoul privately promised that Kim would be allowed to travel abroad upon completion of his trial.

South Korean officials have privately claimed that Kim will not actually be sent to jail. The speaker of the South Korean National Assembly, Chong Il-kwon, told the US ambassador in Seoul on December 14 that some way would be "worked out" during the appeals process to suspend the sentence.

Tokyo, for its part, is taking a wait-and-see attitude. The Foreign Ministry has so far withheld a critical statement. The Japanese press and opposition parties initially criticized the Miki government for "condoning" Kim's sentencing, but have become silent over the past day or so as they too wait for Pak's next move.

The Pak regime clearly is more worried about foreign than domestic reaction. Indeed, South Korean courts recently handed down harsh sentences to student leaders charged with violating decrees that severely curtail the right to dissent.



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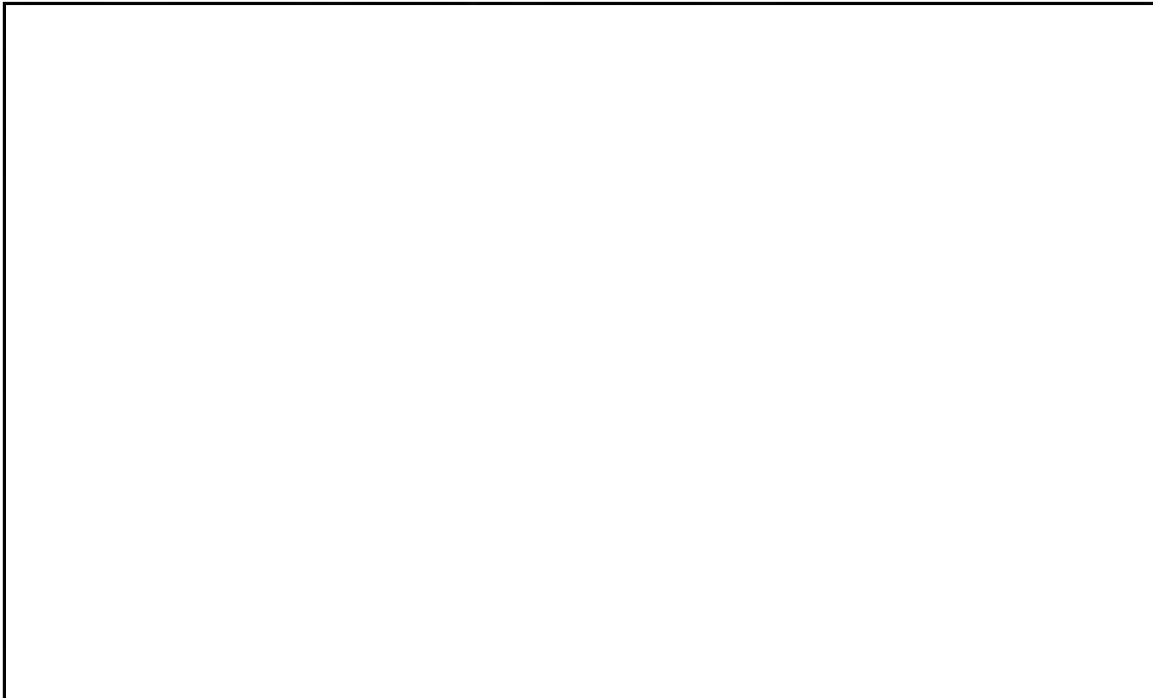
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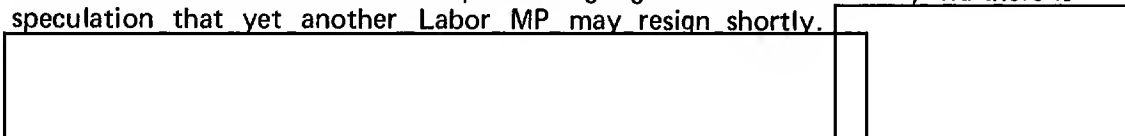
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UK: The death of a Labor MP this week has deprived the Wilson government of its one-seat majority in Parliament. The vacancy is unlikely to threaten the government's working majority on the floor of Commons, but it will deny the government a majority on committees. The Labor Party has not selected a candidate to fill the vacancy, nor has a date been set for the by-election; there is speculation that it will be held in early spring. Additional Labor seats are expected to be declared vacant as a result of court proceedings against two incumbents, and there is speculation that yet another Labor MP may resign shortly.



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